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No. 05-130

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

eBAY, INC. and HALF.COM., INC.,

Petitioners,

—against—

MERCEXCHANGE, L.L.C.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK AS AMICUS CURIAE IN SUPPORT OF PETITIONERS

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QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

2. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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INTEREST OF AMICUS CURIAE

The Association of the Bar of the City of New York (the "Association"), through its Committee on Patents, submits this *amicus curiae* brief in support of the Petitioners. Petitioners and Respondent have consented to the filing of this brief.[1] The Association is a private, non-profit organization of more than 22,000 attorneys, judges, and law professors who are professionally involved in a broad range of law-related activities. Founded in 1870, the Association is one of the oldest Bar Associations in the United States. The Association seeks to promote legal reform and to improve the administration of justice at the local, state, federal, and international levels through its more than 180 standing and special committees.

The Committee on Patents (the "Committee") is a long-established standing committee of the Association. Its membership reflects a wide range of corporate, private practice, and academic experience in patent law. Members of the Committee are actively involved in both the prosecution and the defense of claims alleging patent infringement. The Committee is thus directly interested in the questions presented in this case and in the maintenance of district courts' traditional authority to grant or withhold injunctive relief "in accordance with the principles of equity." 35 U.S.C. § 283.

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1. The parties' letters of consent have been filed with the Clerk in compliance with Rule 37.3. This brief was not authored in whole or in part by counsel for any party. No person or entity other than counsel for the Association made a monetary contribution to the preparation or submission of this brief.

The Association believes that the Federal Circuit has improperly circumscribed district courts' discretion under § 283, to the detriment of the patent system and the public. The award of injunctive relief in patent cases should be governed by the same legal standards as govern the award of injunctive relief in federal cases generally. The "general rule" applied below has no basis in the text of § 283 or applicable decisions of this Court. The judgment of the Federal Circuit in this case should be reversed.

STATEMENT

Respondent is the assignee of U.S. Patent No. 5,845,265 issued December 1, 1998, for a claimed invention entitled "Consignment Nodes" (the "'265 Patent"). The '265 Patent issued on the basis of an application filed November 7, 1995, which application was in turn a "continuation-in-part" of an earlier application filed April 26, 1995.[2]

As used in the '265 Patent, the term "consignment node" refers to "[a]n electronic market" where sellers can "post"

2. A "continuation" application is one that has same disclosure as an earlier-filed "parent" application and is deemed by 35 U.S.C. § 120 to have been filed on the date of the earlier-filed application. A "continuation-in-part" application is one whose disclosure includes but is not limited to material from an earlier-filed application and, to the extent of the common subject matter, is deemed by 35 U.S.C. § 120 to have been filed on the date of the earlier-filed application. A "divisional" application is one that has the same disclosure as an earlier-filed application, but whose claims point to a separate and distinct "invention" as compared with the subject matter claimed in an earlier-filed "parent" application. Under 35 U.S.C. § 121, "divisional" applications are treated similarly to "continuation" applications and may be deemed to have been filed on the date of an earlier-filed "parent" application.

and offer goods for sale and buyers can view and purchase goods so "posted" and offered ('265 Patent at col. 24, lines 30-67 through col. 25, lines 1-12). The '265 Patent contrasts the disclosed and claimed "electronic market" with previously known ways of marketing used and collectible goods, including by placing such goods on display in "shops specializing in these items" (*id.* at col. 1, line 19). The '265 Patent asserts: "The prior art does not provide a means to electronically market used goods or provide an avenue to allow participants to speculate on the price of collectable or used goods in an electronic market place" (*id.* at col. 1 lines 23-26).

In determining whether Petitioners here were liable for infringing the '265 Patent, the courts below were faced with a number of sharply contested legal issues, including the issue of whether the '265 Patent disclosed and claimed subject matter that "would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C. § 103(a). This issue is touched on briefly here, because "[e]ven in an action between private individuals, it has long been held that an injunction is 'to be used sparingly, and only in a clear and plain case.'" *Rizzo v. Goode*, 423 U.S. 362, 378 (1976) (quoting *Irwin v. Dixion*, 50 U.S. (9 How.) 10, 33 (1850)).

The district court here submitted the ultimate question of patent validity to a jury for determination.[3] The jury

3. This Court has held that "the ultimate question of patent validity is one of law." *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966). The Petition in this case does not seek review of whether there is any right to trial by jury of ultimate question of patent validity. *Compare Sarkisian v. Winn-Proof Corp.*, 688 F.2d 647, 651 (9th Cir. 1982) ("The court

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answered "no" to the question whether Petitioners "have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid due to obviousness" (Verdict No. 14).[4] The jury's verdict did not identify any facts or legal reasoning on which it was based. On appeal, the Federal Circuit treated the jury's verdict on patent validity under 35 U.S.C. § 103(a) as if it were a general verdict and thus subject to only very limited and deferential review.[5]

(Cont'd)
must, in all cases, determine obviousness as a question of law independent of the jury's conclusion.") *with Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 895 & n.5 (Fed. Cir. 1984) (rejecting *Sarkisian* as making "charades of motions for directed verdict or JNOV under Fed.R.Civ.P. 50 in patent cases.").

4. The Petition in this case does not seek review of whether "clear and convincing evidence," or "preponderance of the evidence," is the applicable burden of proof of invalidity under 35 U.S.C. § 282(2). *Compare Dickstein v. Seventy Corp.*, 522 F.2d 1294, 1297 (6th Cir. 1975) ("a preponderance of evidence is sufficient to establish invalidity") *with Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1549 (Fed. Cir. 1983) ("the evidence relied on to prove those facts must be clear and convincing").

5. Under Federal Circuit precedent, when a jury renders a verdict on the ultimate legal question of patent validity, post-verdict or appellate review is limited to "re-creating the facts as they *may have been found* by the jury, and . . . applying the *Graham* factors to the evidence of record." *McGinley v. Franklin Sports, Inc.*, 262 F.3d 1339, 1351 (Fed. Cir. 2001) (emphasis added). The Petition in this case does not seek review of whether jury verdicts on ultimate questions of patent validity are properly subject to review only for the existence of "substantial evidence" of factual predicates that may (or may not) have been found. *Cf. In re Lockwood*, 50 F.3d 966, 987-88 (Fed. Cir.) (Nies, J., dissenting) (criticizing submission of ultimate questions of patent validity to juries), *vacated*, 515 U.S. 1182 (1995).

Citing testimony of one of Respondent's experts to the effect that "a person of ordinary skill in the art would not be motivated to modify the system covered by the '111 patent to create the system claimed in the '265 patent,"[6] the Federal Circuit concluded in a one-paragraph analysis that "there was substantial evidence to support the jury's finding of nonobviousness." *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1331 (Fed. Cir. 2005).[7]

Less than two weeks after the Federal Circuit's judgment was issued, the United States Patent and Trademark Office (the "PTO") reached precisely the opposite conclusion and rejected all claims made in the '265 Patent as invalid under 35 U.S.C. § 103(a) in view of the same prior art[8] that had

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6. The "'111 patent" referred to by the Federal Circuit was U.S. Patent No. 5,664,111. The '111 patent discloses an online system for consigning, displaying, and selling goods that is very similar in structure and operation for the "electronic market" disclosed and claimed in the '265 Patent. The '111 patent was never considered by the United States Patent and Trademark Office during the prosecution of the '265 Patent.

7. The Petition in this case does not seek review of the appropriateness of the "motivation" test that the Federal Circuit applied in reviewing the jury's verdict on the ultimate question of patent validity in this case. *Cf. KSR Int'l Co. v. Teleflex, Inc.*, 126 S. Ct. 327 (2005) (No. 04-1350) (order inviting Solicitor General to file a brief expressing the views of the United States on the question of "[w]hether the Federal Circuit has erred in holding that a claimed invention cannot be held 'obvious,' and thus unpatentable under 35 U.S.C. § 103(a), in the absence of some proven 'teaching, suggestion, or motivation' that would have led a person of ordinary skill in the art to combine the relevant prior art teachings in the manner claimed.").

8. In patent parlance the term "prior art," 35 U.S.C. § 103(a), refers to pre-existing knowledge against which the patentability of claimed subject matter must be measured.

been cited in the Federal Circuit's opinion. *See In re Reexamination No.* 90/006,956, Office Action Mar. 24, 2005.[9] The conflicting validity conclusions of the PTO and the Federal Circuit in this case illustrate a point this Court made long ago: "A patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office. Moreover, the legal conclusion is predicated on factors as to which reasonable men can differ widely." *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

After rendering their verdict on the ultimate legal question of patent validity and finding that systems operated by Petitioners were described by the words of asserted claims of the '265 Patent,[10] the jury proceeded then to award Respondent exactly $25 million in "reasonable royalty"-type damages for acts of infringement of the '265 Patent committed by Petitioners between December 1, 1998, and the time of trial which commenced April 23, 2003. Under 35 U.S.C. § 284, "reasonable royalty"-type damages are awarded on the basis of what a patentee would reasonably have agreed to accept, and an infringer would reasonably

9. The PTO rejection of March 24, 2005, was "non-final" and so may be reconsidered or overturned by a court at a later date.

10. The Petition in this case does not seek review of what must be shown to establish infringement of a patent under 35 U.S.C. § 271(a). *Compare Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 415-22 (1908) (affirming judgment that configuration of accused machine was both described by claim language and "within the doctrine of equivalents") *and National Rolled Thread Die Co. v. E.W. Ferry Screw Prods., Inc.*, 541 F.2d 593, 599 (6th Cir. 1976) ("infringement is not a mere matter of words") *with Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1579 n.2 (Fed. Cir. 1983) ("an admission of 'claim coverage' is an admission of literal infringement.").

have agreed to pay, in a hypothetical license negotiation conducted just prior to the initiation of an infringement and taking into account then-known non-infringing substitutes and other factors bearing on the value of a claimed invention. *See Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119-20 (S.D.N.Y. 1970), *modified*, 446 F.2d 295 (2d Cir. 1971).

With regard to post-trial infringement, the District Court made factual findings that (a) Respondent "did not seek to enjoin eBay but rather sought appropriate damages for the infringement," *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2005); (b) Respondent "will not suffer irreparable harm if the injunction does not issue," *id.*; (c) Respondent "has an adequate remedy at law," *id.* at 713; and (d) "the balance of the hardships tips in favor of the defendants [Petitioners]." *Id.* at 715. The District Court also cited "a growing concern over the issuance of business-method patents" as weighing against an injunctive as distinct from a monetary remedy. *Id.* at 713. The District Court cited *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974), as authority for its decision to remit Respondent to a monetary remedy.

On appeal, after affirming the jury's verdicts on infringement and validity, the Federal Circuit proceeded then to reverse the District Court's denial of respondent's motion for a permanent injunction. *MercExchange*, 401 F.3d at 1338-39. The Federal Circuit did not cite to the District Court's findings with respect to a lack of irreparable harm, adequacy of monetary remedies, or balance of hardships. The Federal Circuit also did not cite or distinguish the Second Circuit's reasoning in *Foster*.

Instead, the Federal Circuit applied what it called a "general rule" that was said to flow from "the concept of property":

> Because the "right to exclude recognized in a patent is but the essence of the concept of property," the general rule is that a permanent injunction will issue once infringement and validity have been adjudged.[11]

According to the Federal Circuit, "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Id.* at 1339. The Federal Circuit held that legal uncertainty or concern over the issuance of "business-method patents"[12] was "not the type of important public need that

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11. 401 F.3d at 1338 (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)).

12. The term "business method patent" is a source of considerable controversy and confusion. The words, "business method," are sometimes used to characterize patents that claim apparatus or machinery configured to implement "business" functions, as here. More recently, and over vigorous dissent, the term "business method" has been used to characterize processes that fall outside any traditional understanding of technology. *See Ex parte Lundgren*, 76 U.S.P.Q.2d 1385, 1385-88 (B.P.A.I. 2005) (per curiam) (reversing rejection of patent claim that recited a "method of compensating a manager"; majority states that "there is currently no judicially recognized separate 'technological arts' test to determine patent eligible subject matter under § 101"). The Petition in this case does not seek review of whether or to what extent the Constitution authorizes issuance of patents on "business methods," or whether or to what extent non-technological subject matter can

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justifies the unusual step of denying injunctive relief." *Id.* The Federal Circuit further held that the cash value of an injunction's impact on an infringer was a "reward" that a district court had no discretion to deny to a prevailing plaintiff. *Id.* Said the Federal Circuit: "if the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers." *Id.*

SUMMARY OF THE ARGUMENT

Claims for patent infringement arise from highly diverse circumstances and often raise legal and jury issues whose resolution cannot be predicted with any certainty. Patents may issue years after an accused product or process has been lawfully developed and marketed. A person can commit infringement of a patent without any prior notice or knowledge that he or she is doing so. To say that in all cases and all circumstances, district courts must implement a "general rule . . . that a permanent injunction will issue once infringement and invalidity have been adjudged," 401 F.3d at 1338, is to impose bias in place of the flexibility and discretion that is the very essence of equity jurisdiction.

District courts should be permitted to consider a broad range of factors when exercising equitable discretion under 35 U.S.C. § 283. These include: (a) whether and to what

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be constituted a "process" within the meaning of 35 U.S.C. § 101 or a "difference" within the meaning of 35 U.S.C. § 103(a). *Cf. Funk Bros. Seed Co. v. Kalo Co.*, 333 U.S. 127, 132 (1948) (discovery of unpatentable, pre-existing natural phenomenon could not be "borrowed from" to render claimed subject matter patentable).

extent the harm caused by an infringer is "irreparable" in character or admits of "adequate" monetary remedy; (b) whether and to what extent infringing activity may have been initiated lawfully and without notice or knowledge of a patent; (c) whether and to what extent a patentee may have delayed in presenting or asserting a claim of infringement; (d) whether and to what extent a claim of patent infringement raised novel, unsettled, or legitimately contested questions of law; (e) whether and to what extent injunctive relief would impose undue harm on the infringer, both in absolute terms and relative to the net benefits the patentee would gain from the injunction; and (f) the extent to which injunctive relief would injure third parties who had no opportunity to participate in the litigation. In suggesting that only "important public need" can justify withholding injunctive relief against adjudged patent infringement, 401 F.3d at 1339, the Federal Circuit has inappropriately circumscribed the range of factors that district courts can and should consider when deciding if injunctive relief is "in accordance with the principles of equity." 35 U.S.C. § 283.

The Court should not reconsider, but to the contrary should reaffirm its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to issue permanent injunctive relief against patent infringement. *Continental Paper Bag* correctly and properly held that a patentee's right to seek injunctive relief is not conditioned upon the patentee itself commercially exploiting a claimed invention. This holding is sound and should be reaffirmed. At the same time, *Continental Paper Bag* and other precedents of this Court recognize district courts' broad discretion to grant or withhold injunctive relief on the basis of the particular facts and equities as they may appear from evidence presented in a given case.

ARGUMENT

I. DISTRICT COURTS' DISCRETION UNDER § 283 IS NOT PROPERLY CIRCUMSCRIBED BY A "GENERAL RULE" THAT IGNORES THE PARTICULAR EQUITIES PRESENT IN A GIVEN CASE.

"The basis of injunctive relief in the federal courts has always been irreparable harm and inadequacy of legal remedies." *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 506-07 (1959). "In each case, a court *must* balance the competing claims of injury and *must* consider the effect on *each* party of the granting or withholding of the requested relief." *Amoco Prod. Co. v. Village of Gambell*, 480 U.S. 531, 542 (1987) (emphasis added). *See Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-12 (1982).

The district court here applied these well-settled principles of equity; the Federal Circuit cast them aside in favor of a "general rule" that flies in the face of this Court's precedents construing federal courts' equity powers and their proper exercise. If there is a "general rule" that governs this case, it is "the fundamental principle that an injunction is an equitable remedy that *does not* issue as of course." *Amoco*, 480 U.S. at 542 (emphasis added). *Accord Weinberger*, 456 U.S. at 311 (quoting *Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337-38 (1933) (Brandeis, J.)).

The "general rule" applied below is a recent construct of the Federal Circuit that has no basis in the text of § 283 or any decision of this Court. The sole authority cited for the "general rule" applied below was a 1989 Federal Circuit panel decision, *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989). *Richardson*, in turn, cited to dictum

in *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983) ("the right to exclude recognized in a patent is but the essence of the concept of property") and Federal Circuit panel decisions from the 1980's that by steps characterized permanent injunctive relief in patent cases as "the norm"[13] and "usually granted."[14]

The award of injunctive relief in patent cases should be governed by the same legal standards as govern the award of injunctive relief in federal cases generally. This is the clear import of 35 U.S.C. § 283. The Congress well knows how to limit or foreclose federal courts' equitable discretion in particular categories of cases;[15] it clearly did not do so in § 283. *See Amoco*, 480 U.S. at 542 ("Unless a statute in so many words, or by a necessary and inescapable inference, restricts the court's jurisdiction in equity, the full scope of that jurisdiction is to be recognized and applied.") (quoting *Weinberger*, 456 U.S. at 313 (quoting *Porter v. Warner Holding Co.*, 328 U.S. 395, 398 (1946))).

In patent cases, as in all other cases, federal courts should consider the totality of the circumstances in determining whether to grant or withhold permanent injunctive relief in a given case — as the district court did here. That patents "have the attributes of personal property," 35 U.S.C. § 261,

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13. *KSM Fastening Sys., Inc. v. H. A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985) (dictum).

14. *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) (dictum).

15. *Cf. Tennessee Valley Auth. v. Hill*, 437 U.S. 153, 173 (1978) (Endangered Species Act foreclosed the exercise of the usual discretion held by courts of equity).

is simply not a basis for exempting patent cases from principles of equity that govern the award of injunctive relief in federal cases generally. *Cf. Dun v. Lumbermen's Credit Ass'n*, 209 U.S. 20, 22-24 (1908) (copyright plaintiff was properly refused injunction and remitted to a monetary remedy, where copied portion of accused work was "insignificant" in relation to the accused work as a whole, accused work had a specialized focus as compared with the copyrighted work and reflected substantial independent effort, and balance of hardships favored withholding of an injunction and remitting the plaintiff to a monetary remedy); *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (patent plaintiff was properly remitted to a monetary remedy where ordering a cessation of infringers' activity would not have been to the benefit of either party; stating that an injunction "is not intended as a club to be wielded by a patentee to enhance his negotiating stance.").

One factor that bears on the appropriateness of permanent injunctive relief in patent cases is the nature and extent of the harm that is caused by a person's infringement. In the injunction context "irreparable" harm includes harm that cannot be accurately quantified in monetary terms.[16] Unauthorized use of a patented invention may well give rise to injury that is "irreparable" in this sense, but this is not a necessary or inevitable result of every patent infringement.[17]

16. *E.g.*, *Warner-Lambert Co. v. Northside Dev. Corp*, 86 F.3d 3, 8 (2d Cir. 1996) (affirming preliminary injunction where claimed loss of "consumer goodwill" flowing from defendants' distribution of stale branded product was "not accurately compensable").

17. In one of its earliest decisions, the Federal Circuit held that "where validity and continuing infringement have been clearly established, . . . immediate irreparable harm is presumed." (Cont'd)

Beneath the rhetoric of the Federal Circuit's opinion below is a simple truth: when a patented invention is part of an existing apparatus or process, the costs of complying with a patent injunction may be orders of magnitude higher than any "reasonable royalty" that an infringer might have agreed to pay *ex ante* for a license to use the patented invention. Injunctive relief in such situations can thus force an infringer to settle a patent claim for an amount of money that greatly exceeds any legally cognizable "damages" that may be caused by the infringement or recovered in a civil action.[18]

Where an injunction is sought, not for relief from impacts flowing from an infringer's commercial conduct in the marketplace, but for the purpose of setting up a settlement demand for the value of all or part of an infringer's injunction

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(Cont'd)

Smith Int'l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1581 (Fed. Cir. 1983) (footnotes omitted). Although conduct threatening certain types of injury that is both incapable of quantification and difficult to prove (e.g., false statements affecting a person's business reputation) has long been "presumed" to cause "irreparable harm," this Court has never held that patent infringement falls in this category. The Court need not decide whether patent infringement is or ought to be "presumed" to cause "irreparable harm" in any or all cases, since the district court here found, as a fact, that Petitioners had rebutted the *Smith* "presumption" with evidence, 275 F. Supp. 2d at 712-13, a finding the Federal Circuit left undisturbed.

18. Monetary remedies for patent infringement are limited by statute to "damages," 35 U.S.C. § 284, that is, compensation for what an infringer "loses" as a result of the infringement. *See Aro Mfg.Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505 (1964). Patentees formerly were entitled to seek recovery of an infringer's profits from infringement, but that remedy was repealed by Congress in 1946. *Id.*

compliance costs, a district court may well be justified in concluding that the complainant has an "adequate" monetary remedy — as the district court found here. *Cf. Nerney v. New York, N.H. & H.R. Co.*, 83 F.2d 409, 411 (2d Cir. 1936) (in patent case, where "the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue.").[19] Nothing but litigation strategy prevented this Respondent from claiming and proving up "reasonable-royalty"-type damages on a "fully-paid up" basis.[20]

The nature and extent of an injunction's impact on an infringer, and the extent to which a claim of infringement was foreseeable by an infringer, are additional factors that may bear on the appropriateness of injunctive relief in patent cases.[21] The weight that a court should give these factors will vary from case to case.

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19. In *Nerney*, the patent-in-suit involved a type of railroad brake assembly. The transfer of rolling stock from one railroad carrier to another made it impracticable for any one carrier to avoid receiving and being asked to transport cars that allegedly embodied the claimed invention.

20. *Cf. Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed. Cir. 2001) (affirming judgment awarding "reasonable-royalty"-type damages on a "fully paid-up" basis).

21. 35 U.S.C. § 287 limits even monetary relief for infringement where a patentee has failed to give notice of patent rights by marking articles embodying a patented invention. This statute is further recognition that persons accused of infringement may have equities or intervening rights in their favor that limit the availability of remedies for infringement.

Where an infringer is shown to have had both actual prior knowledge of a patent and no reasonable basis for contesting validity or infringement, a court of equity may be justified in concluding that such an infringer has only itself to blame for any burden that may attend compliance with a permanent injunction. In such a case the impact of an injunction on the infringer may count for very little in an equitable balance.

On the other hand, patent infringement can occur quite by accident.[22] Patent applications can properly remain pending for years in the PTO with no loss of priority.[23] A company may invest in tooling or apparatus that infringes no one's patent at the time of the investment, and yet subsequently find itself sued for infringement of a patent of which it neither had nor could have had any prior notice or knowledge.[24] In such a case, the impact of an injunction on an infringer may count for a great deal in an equitable balance.

A pair of this Court's decisions exemplifies how principles of equity can lead to different outcomes depending

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22. 35 U.S.C. § 271(a) includes no requirement of knowledge or intent or copying.

23. *Overland Motor Co. v. Packard Motor Co.*, 274 U.S. 417, 423-27 (1927).

24. Prior to November 29, 2000, 35 U.S.C. § 122 required that all United States patent applications be kept in confidence unless and until a patent was issued. Effective November 29, 2000, 35 U.S.C. § 122 was amended to require that certain United States patent applications be published after eighteen (18) months from the earliest claimed priority date of filing. Even with this amendment, substantial numbers of patent applications remain completely secret unless and until a patent issues, and all patent applications remain secret for at least 18 months from the earliest claimed priority date of filing.

on the circumstances giving rise to a claim of patent infringement. In *Abercrombie & Fitch Co. v. Baldwin*, 245 U.S. 198 (1917), this Court affirmed a judgment awarding permanent injunctive relief where:

> It will be remembered that this company entered the field with its lamp at a time when the validity and scope of the Baldwin patent were still unquestioned and when after some five years of capable effort, the Baldwin lamp had created an extensive market. The Justrite Company took its chances. . . . I see nothing in the course of plaintiffs or defendants which would allow a court of equity to conclude that defendants are to be relieved because of intervening rights.[25]

The Court reached an opposite result in *Webster Elec. Co. v. Splitdorf Elec. Co.*, 264 U.S. 463 (1924). In that case, the activity challenged as infringement had been lawfully initiated prior to issuance of the asserted patent. The asserted claim had been presented to the PTO for the first time by way of an amendment to a "divisional" application made more than five years after the claimed subject matter had been described in a printed publication and more than three years after the *Webster* lawsuit had been commenced. Notwithstanding that the plaintiff's "divisional" patent application related back to the date of an original "parent" patent application[26] and so was not anticipated by the

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25. 245 U.S. at 209-10 (quoting district court opinion).

26. *See Chapman v. Wintroath*, 252 U.S. 126, 137 (1920) ("where an invention clearly disclosed in an application, as in this

(Cont'd)

intervening printed publication, this Court held that the plaintiff's delay in presenting his claim to the Patent Office "was an exigent afterthought, rather than a logical development of the original application," and "under the circumstances shown by the record, constitute[d] laches, by which the petitioner lost whatever rights it might otherwise have been entitled to." 264 U.S. at 466.

Even where a person initiates or continues challenged activity with knowledge of an adversely-held patent, there may be legitimate reasons for disputing infringement, contesting the validity of the patent, or both. To a far greater degree than with rights to exclude use of tangible personal or real property, rights to exclude use of "patented invention[s]" are subject to numerous and substantial uncertainties including (a) the legal scope of a patent grant, including the existence and scope of prosecution history estoppels; (b) whether a claimed invention satisfies numerous conditions for patentability; (c) whether an accused product or process is "equivalent" to a claimed invention; and (d) whether and how this Court will resolve substantial conflicts that currently exist between Federal Circuit and

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(Cont'd)

case, is not claimed therein but is subsequently claimed in another application, the original will be deemed a constructive reduction of the invention to practice and the later one will be given the filing date of the earlier, with all of its priority of right."). The relation back principle of *Chapman* was subsequently codified in 35 U.S.C. § 120. *See* S. Rep. No. 82-1979 (1952), *as reprinted in* 1952 U.S.C.C.A.N. 2394, 2400 ("Sections 120 and 121 express in the statute certain matters which exist in the law today but which had not before been written into the statute. . . .").

regional circuit precedent on core patent law issues.[27] In a given case, uncertainties surrounding whether an asserted patent is valid, or whether challenged conduct infringes a patent, may give rise to equities that bear on the appropriateness of permanent injunctive relief.

Courts' exercise of discretion under § 283 should also take account of "[t]he far-reaching social and economic consequences of a patent." *Precision Instrument Mfg. Co v. Automotive Maint. Mach. Co.*, 324 U.S. 806, 816 (1945). *See Weinberger*, 456 U.S. at 312 ("In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction."). The public interest in patent injunctions is not limited to "need" for a patented invention. 401 F.3d at 1338. *Cf. Ensten v. Simon, Ascher & Co.*, 282 U.S. 445, 452-53 (1931) ("The same principle which forbids a patentee to assert a right to more than he has actually invented compels him to disavow the right as soon as he discovers that it has been unjustly claimed") (quoting 2 W. Robinson, *Law of Patents* 284 (1890)); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 518-19 (1917) (declaring invalid a notice purporting to condition

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27. For example, on the legal standard of infringement, *compare Smith*, 718 F.2d at 1579 n.2 ("an admission of 'claim coverage' is an admission of literal infringement") *with National Rolled Thread Die Co. v. E.W. Ferry Screw Prods, Inc.*, 541 F.2d 593, 599 (6th Cir. 1976) ("infringement is not a mere matter of words") (quoting *Nickerson v. Bearfoot Sole Co.*, 311 F.2d 858, 881 (6th Cir. 1962) (quoting *General Elec. Co. v. Allis-Chalmers Co.*, 178 F. 273, 276 (3d Cir. 1910))). *See also* notes 3-5, 7, 10, and 12, *supra*.

use of apparatus embodying patented invention on purchase or lease of unpatented supplies).[28]

35 U.S.C. § 282(2) makes "invalidity" a defense to any action for patent infringement. An invalid patent, by definition, improperly excludes public use of subject matter that the public has a "federal right to 'copy and to use.'" *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 165 (1989). The legal standards governing the exercise of discretion under § 283 directly affect the risk profile of patent validity challenges and thus the likelihood that accused infringers will mount challenges to patent validity, with the accompanying public benefits that flow from judicial invalidation of bad patents.

The "general rule" applied below severely chills and discourages court challenges to patent validity. According to the decision below, a person who contests the validity of a patent and fails to persuade a lay jury to make a correct (and, under Federal Circuit precedent, all but unreviewable)

28. *Motion Picture Patents* did not involve any question of "misuse" or liability under the Sherman Act, but merely whether a notice affixed to a machine sold by the patentee was operative to terminate an implied license to use the machine that had accompanied the machine's sale. *Cf. Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 125 S. Ct. 2937 (2005) (No. 04-1329) (granting certiorari to review whether courts should presume that patents confer "market power" sufficient to establishing that tying patent license to purchase of unpatented supplies gives rise to per se violation of Section 1 of the Sherman Act, 15 U.S.C. § 1). On the other hand, the existence and closeness of substitutes for a patented invention may bear on the impact of an injunction and hence the appropriateness of an award of injunctive relief in a given case, just as it may bear on the amount of "reasonable royalty"-type damages that may be recovered as compensation for infringement.

determination of the ultimate legal question of patent validity, confronts a judge-made "general rule" that the risk of failure is potentially crippling injunctive relief in the absence of review by this Court. That was never the law prior to the creation of the Federal Circuit, and should not be the law today.

In sum, the circumstances giving rise to patent infringement liability do not fit or fall into any "general" pattern of stereotype, and remedies for patent infringement are not properly dictated by a "general rule" that purports to displace and trump traditional principles of equity. In holding to the contrary, the Federal Circuit has erred.

II. THE COURT SHOULD REAFFIRM ITS PRECEDENTS ON PATENT INJUNCTIONS.

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), this Court reviewed a judgment awarding a permanent injunction against infringement of U.S. Patent No. 558,969 entitled "Paper-Bag Machine" (the "'969 Patent" or the "Liddell patent"). Two questions were presented in *Continental Paper Bag*: (1) whether the lower courts had erred in finding infringement of the '969 Patent; and (2) whether the lower courts had erred in awarding a permanent injunction. The Court's decision in *Continental Paper Bag* turned on its resolution of both questions.

The '969 Patent disclosed and claimed apparatus for automatically folding and forming paper bag material. The apparatus comprised a "rotating cylinder," a "forming plate," and "operating means for the forming plate adapted to cause the said plate to oscillate about its rear edge upon the surface of the cylinder during the rotary movement of said cylinder, the whole operating for the purpose of opening and forming the bottom of the bag tube." 210 U.S. at 417.

It was undisputed that the words of the recited "operating means" element described a structure that was found in the accused machine. But this fact was not determinative of the issue infringement. In affirming the judgment of infringement in *Continental Paper Bag*, this Court held, first, that "Eastern Company [the plaintiff/respondent] may invoke for the Liddell patent the doctrine of equivalents," 210 U.S. at 415; and second, that the accused mechanism had properly been held by the lower courts to be "within the doctrine of equivalents." *Id.* at 421-22. The foundation for the injunction in *Continental Paper Bag* was a person's having used mechanical means for performing a useful result that were found to be equivalent to corresponding structures disclosed and claimed in the complainant's patent.[29]

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29. In *Westinghouse v. Boyden Power Brake Co.*, 170 U.S. 537 (1898), this Court stated the standard of patent infringement to be as follows:

> As was said in *Burr v. Duryee*, 1 Wall. 531, 573, an infringement 'is a copy of the thing described in the specification of the patentee, either without variation, or with such variations as are consistent with its being in substance the same thing. If the invention of the patentee be a machine, it will be infringed by a machine which incorporates in its structure and operation the substance of the invention; that is, by an arrangement of mechanism which performs the same service or produces the same effect in the same way, or substantially the same way. . . . That two machines produce the same effect will not justify the assertion that they are substantially the same, or that the devices used are, therefore, mere equivalents for those of the other.'

170 U.S. at 569 (quoting *Burr v. Duryee*, 68 U.S. (1 Wall.) 531, 572-73 (1864)).

Confronted, thus, with an infringer that was not just a manufacturing competitor of the complainant, but one whose paper bag making machinery operated in substantially the same way as the machinery disclosed and claimed in the complainant's patent; and in the context of a suit between manufacturing rivals in which the complainant would benefit competitively from a cessation of the infringement irrespective of any subsequent settlement, the Court turned to the second question presented in *Continental Paper Bag*, which was whether the complainant's failure to commercialize the invention of the '969 Patent[30] was a complete bar to issuance of injunctive relief that was otherwise warranted in equity. The Court answered this question "no." 210 U.S. at 422-30. This holding was clearly correct and should be reaffirmed.

"This Court has consistently held that the failure of the patentee to make use of the patented invention does not affect the validity of the patent." *Special Equip. Co. v. Coe*, 324 U.S. 370, 378-79 (1945). That is not to say that in a given case, a patentee's failure to exploit a patented invention might not have a bearing on whether, in an equitable balance, injunctive relief is warranted under all the circumstances. But a patentee's right to injunctive relief under § 283 is clearly not *conditioned* on the patentee itself exploiting the patented invention that is the subject of an infringement suit. For all of the reasons set forth in Part I, above, any such "general rule" limiting injunctive relief would be contrary to principles of equity. Reversal in this case does not require or call for any such categorical approach.

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30. The complainant in *Continental Paper Bag* contended that the invention of the '969 Patent did not provide sufficient commercial advantage over the complainant's existing manufacturing equipment as to justify replacing the latter prematurely. 210 U.S. at 429.

In cases decided subsequent to *Continental Paper Bag*, this Court has recognized district courts' broad authority and discretion to grant or withhold injunctive relief "in accordance with the principles of equity." 35 U.S.C. § 283. The legal standard applied below departs sharply from established equitable principles, and should be reversed.

CONCLUSION

For the reasons set forth above, the Court should reverse the judgment of the Court of Appeals.

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